

BEFORE THE  
POSTAL REGULATORY COMMISSION  
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING  
(PROPOSAL THREE)

Docket No. RM2021-6

RESPONSES OF THE UNITED STATES POSTAL SERVICE TO  
CHAIRMAN'S INFORMATION REQUEST NO. 1  
(May 5, 2021)

The United States Postal Service hereby provides its responses to Chairman's Information Request No. 1, issued on April 28, 2021. Each question is stated verbatim and is followed by its response. Question 4 asks for an illustration, which the Postal Service has provided as an Excel file, RM2021-6.ChIR1Q4Resp.xlsx.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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**RESPONSES OF THE UNITED STATES POSTAL SERVICE  
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1. Please refer to Library Reference USPS-FY20-3, December 29, 2020, Excel file "FY20.3 WorksharingTables.xlsx," tab "Flats & Parcels Dropship," cells N30:N36. Please explain why the avoided costs are the same for Carrier Route basic flats<sup>1</sup> and Carrier Route flats on 5-Digit pallets at every dropship level.

**Response:**

For Marketing Mail, the ACR Commission-prescribed methodology is to independently measure costs avoidances due to dropshipping in USPS-FY20-13 and cost avoidance due to presort and containerization in USPS-FY20-11. In USPS-FY20-13, the Marketing Mail dropshipping avoided costs are measured by shape, not by product within the class. The measured avoidances include avoided transportation costs and transportation-related mail processing costs. Transportation costs are incurred by weight, thus invariant to preparation, and therefore all products within Marketing Mail would incur identical transportation related avoided cost per pound. However, there is significant variation in piece weights across presort tiers, entry locations, and rate cells. The anomaly that precipitates Proposal Three is the result of the discount being established based on the avoided costs of a four-ounce piece but the piece weights for DDU entered Carrier Route Basic pieces being less than two ounces. In this instance, because avoided costs are largely incurred on weight, the entry discount is approximately twice the avoided cost.

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<sup>1</sup> Carrier Route flats on 5-Digit pallets contain only Carrier Route or finer presorted bundles whereas Carrier Route basic flats may contain other bundles. Petition at 2.

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2. Please explain whether Carrier Route flats on 5-Digit pallets can potentially bypass some dropship-related operations that are not bypassed by Carrier Route basic flats.

**Response:**

In Marketing Mail, Carrier Route flats on 5-Digit pallets is the only set of rates that is dependent on containerization. While containerization doesn't alter the types of operations, meaning dropshipped containers avoid cross-dock operations regardless of containerization, containerization will affect the specific avoided costs. For example, on a per-piece basis, the costs of crossdocking a piece in a sack is higher than crossdocking a piece on a pallet. If the Commission's prescribed ACR methodology for measuring Marketing Mail dropship avoided costs were to be altered such that avoided non-transportation costs were specific to product or rate, then measured avoided costs would be different for Carrier Route flats on 5-Digit pallets than for Carrier Route basic flats. However, as mentioned in the response to Question 1, such non-transportation costs are a minimal component of dropship avoided costs.

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3. Please refer to Library Reference USPS-FY20-3, Excel file "FY20.3 WorksharingTables.xlsx," tab "Flats & Parcels Dropship," cells P30:Q36. Please confirm that the piece-rated per piece and pound-rated per pound discounts are the same for Carrier Route basic flats and Carrier Route flats on 5-Digit pallets at every dropship level.

**Response:**

Confirmed.

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4. Please provide an illustrative alternative scenario version of Excel file "FY20.3 WorksharingTables.xlsx" showing different discounts for every dropship level for Carrier Route flats on 5-Digit pallets and Carrier Route basic flats.

**Response:**

Please see the accompanying Excel file, "RM2021-6.ChIR1Q4Resp.xlsx," filed with these answers, which has two tabs, "CR flats Drop&Presort Passthru" and "Diff Disc Scenario."

The first tab reproduces the dropship and presort passthroughs for Carrier Route Flats from the information provided in "FY20.3 WorksharingTables.xlsx." References are provided in the tab.

The second tab allows the user to change the pound prices in Cells P62 to Q64 (shaded orange) and see the resulting change in piece prices, discounts, and two different passthrough percentages, one for dropship discounts (shaded yellow in column W) and the other for preparation or presort discounts (shaded yellow in column J).

As submitted, the worksheet shows the results of changing the current prices to ensure that all dropship passthroughs are at least 85 percent. The DDU price for pieces heavier than 4 ounces on basic pallets is higher than both the DNDC and DSCF prices. The DDU price for pieces heavier than 4 ounces on 5-Digit pallets is higher than the DSCF price. And the presort passthrough discount percentage is above 100 percent for all dropship levels, significantly so for DSCF (142.9 percent) and DDU (209.5 percent).

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5. Please explain why it is necessary to offer prices for Carrier Route flats on 5-Digit pallets if there are no additional costs avoided by preparing the 5-Digit pallets.

**Response:**

The premise of this question “that there are no additional costs avoided by preparing the 5-Digit pallets” is not true. While it is largely true that dropship avoided costs are largely driven by weight, thus invariant presort workshare activities, costs are avoided by the specific preparation of pieces. Mail processing costs vary based on containerization, bundle preparation, and piece presort. The Postal Service offers discounts for Carrier Route 5-digit pallets to encourage mailers to prepare more direct pallets. To support those discounts, estimated avoided costs are developed between Carrier Route pieces and those inducted on 5-digit pallets. The primary operational reason for the avoided cost is that Carrier Route pieces entered on 5-digit pallets typically bypass the Incoming Primary bundle sortation at the plant. To support those discounts, estimated avoided costs are developed between Carrier Route pieces and those inducted on 5-digit pallets. In FY 2020, the estimated avoided presorting costs for a Carrier Route 5-digit pallet was 2.1 cents (see USPS-FY20-11, workbook USPS-FY20-11 MM\_CR flats, tab Marketing Mail Carrier Route, cell E31).